

355.9-406 Discharge of account debtor -- Notification of assignment -- Identification and proof of assignment -- Restrictions on assignment of accounts, chattel paper, payment intangibles, and promissory notes ineffective.

- (1) Subject to subsections (2) to (9) of this section, an account debtor on an account, chattel paper, or a payment intangible may discharge its obligation by paying the assignor until, but not after, the account debtor receives a notification, authenticated by the assignor or the assignee, that the amount due or to become due has been assigned and that payment is to be made to the assignee. After receipt of the notification, the account debtor may discharge its obligation by paying the assignee and may not discharge the obligation by paying the assignor.
- (2) Subject to subsection (8) of this section, notification is ineffective under subsection (1) of this section:
 - (a) If it does not reasonably identify the rights assigned;
 - (b) To the extent that an agreement between an account debtor and a seller of a payment intangible limits the account debtor's duty to pay a person other than the seller and the limitation is effective under law other than this article; or
 - (c) At the option of an account debtor, if the notification notifies the account debtor to make less than the full amount of any installment or other periodic payment to the assignee, even if:
 1. Only a portion of the account, chattel paper, or payment intangible has been assigned to that assignee;
 2. A portion has been assigned to another assignee; or
 3. The account debtor knows that the assignment to that assignee is limited.
- (3) Subject to subsection (8) of this section, if requested by the account debtor, an assignee shall seasonably furnish reasonable proof that the assignment has been made. Unless the assignee complies, the account debtor may discharge its obligation by paying the assignor, even if the account debtor has received a notification under subsection (1) of this section.
- (4) Except as otherwise provided in subsection (5) of this section and KRS 355.2A-303 and 355.9-407, and subject to subsection (8) of this section, a term in an agreement between an account debtor and an assignor or in a promissory note is ineffective to the extent that it:
 - (a) Prohibits, restricts, or requires the consent of the account debtor or person obligated on the promissory note to the assignment or transfer of, or the creation, attachment, perfection, or enforcement of a security interest in, the account, chattel paper, payment intangible, or promissory note; or
 - (b) Provides that the assignment or transfer or the creation, attachment, perfection, or enforcement of the security interest may give rise to a default, breach, right of recoupment, claim, defense, termination, right of termination, or remedy under the account, chattel paper, payment intangible, or promissory note.

- (5) Subsection (4) of this section does not apply to the sale of a payment intangible or promissory note.
- (6) Except as otherwise provided in KRS 355.2A-303 and 355.9-407 and subject to subsections (8) and (9) of this section, a rule of law, statute, or regulation that prohibits, restricts, or requires the consent of a government, governmental body or official, or account debtor to the assignment or transfer of, or creation of a security interest in, an account or chattel paper is ineffective to the extent that the rule of law, statute, or regulation:
 - (a) Prohibits, restricts, or requires the consent of the government, governmental body or official, or account debtor to the assignment or transfer of, or the creation, attachment, perfection, or enforcement of a security interest in the account or chattel paper; or
 - (b) Provides that the assignment or transfer or the creation, attachment, perfection, or enforcement of the security interest may give rise to a default, breach, right of recoupment, claim, defense, termination, right of termination, or remedy under the account or chattel paper.
- (7) Subject to subsection (8) of this section, an account debtor may not waive or vary its option under subsection (2)(c) of this section.
- (8) This section is subject to law other than this article which establishes a different rule for an account debtor who is an individual and who incurred the obligation primarily for personal, family, or household purposes.
- (9) This section does not apply to an assignment of a health-care-insurance receivable.

Effective: July 1, 2001

History: Repealed and reenacted 2001 Ky. Acts ch. 119, sec. 11, effective July 1, 2001. -- Repealed and reenacted 2000 Ky. Acts ch. 408, sec. 88, effective July 1, 2001. -- Amended 1998 Ky. Acts ch. 542, sec. 8, effective July 15, 1998. -- Amended 1986 Ky. Acts ch. 118, sec. 79, effective July 1, 1987. -- Amended 1978 Ky. Acts ch. 84, sec. 20, effective June 17, 1978. -- Amended 1962 Ky. Acts ch. 83, sec. 20. -- Created 1958 Ky. Acts ch. 77, sec. 9-406.